

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

| | | | |
|---|--|--|------------------|
| Applicant: | Mid Valley Recovery Services, Inc. (Mid Valley) 3430 Cogswell Road El Monte, California Los Angeles County | Amount Requested: | \$304,500 |
| | | Requested Loan Term: | 15 years |
| | | Date Requested: | April 24, 2003 |
| | | Resolution Number: | HII-147 |
| Project Site: | 3424 Cogswell Road, El Monte, California | | |
| Facility Type: | Chemical Dependency Facility | | |
| Use of Loan Proceeds: | Loan proceeds will be used to renovate an existing building and construct a new assembly hall. Mid Valley will save approximately \$7,600 per year in loan payments in comparison to a commercial rate loan. | | |
| Type of Issue: | HELP II Loan | | |
| Prior HELP II Borrower: | No | | |
| Payments Status: | N/A | | |
| Financial Overview: | Mid Valley is a financially stable organization, as shown by the positive growth in revenue and continues to operate with positive results. The balance sheet shows strong liquidity and growth in net assets. | | |
| Sources of Revenue: (FYE 6-30-02) | | <u>Amount</u> | <u>Percent</u> |
| | Grants | \$1,494,628 | 76% |
| | Public support | 183,818 | 9% |
| | General fees | <u>287,526</u> | <u>15%</u> |
| | Total Revenue | <u>\$1,965,972</u> | <u>100%</u> |
| <u>Estimated Sources of Funds:</u> | | <u>Estimated Uses of Funds:</u> | |
| HELP II loan | \$304,500 | Construction-remodeling | \$330,800 |
| Equity contribution | <u>31,800</u> | Other development fees | <u>5,500</u> |
| Total Sources | <u>\$336,300</u> | Total Uses | <u>\$336,300</u> |
| Legal Review: | No information was disclosed to question the financial viability or legal integrity of the Applicant. | | |
| Staff Recommendation: | Staff recommends the Authority approve a resolution for a HELP II Loan to Mid Valley Recovery Services, Inc. in an amount not to exceed \$304,500 for a term of 15 years, subject to a final appraised value on the subject property satisfactory to the Authority and the standard HELP II loan provisions. | | |

STAFF SUMMARY AND RECOMMENDATION

MID VALLEY RECOVERY SERVICES, INC. (“Mid Valley”)

April 24, 2003

Resolution Number: HII-147

- I. PURPOSE OF FINANCING:** Loan proceeds are proposed for renovation of an existing building and construction of a new assembly hall. The assembly hall is designed to provide a convenient community meeting place for events that will accommodate all of the clients in the program at the same time. The project will expand service and improve the existing facility. The loan for this project will save approximately \$7,600 per year in loan payments in comparison to a commercial rate loan.

***Construction-remodeling* \$330,800**

Mid Valley owns a 10,915 square foot property located at 3424 Cogswell Road in El Monte, California. The two main building structures located on the property have a total area of approximately 1,600 square feet. The main building houses six transitional living residents and has three bedrooms, a living room, a dining room, a kitchen and a restroom. The other building is a garage, which is currently used for storage.

The project will allow Mid Valley to improve the existing facility. The remodeling includes upgrading heating and installing air conditioning, painting and a new roof. The garage will be converted into a laundry room to be accessed by 30 residents from the various Mid Valley residential facilities, which are also located on Cogswell Road. In addition, the property will be landscaped and sprinklers installed.

The proposed 2,400 square foot assembly hall will be constructed at the rear of the property. It will enable Mid Valley to provide an opportunity and workshops for ongoing alcohol and drug certification training. The large assembly room, with all types of recovery-related activities, will have capacity to seat over 100 clients for seminars and other related events. Also, this will allow residential facility floor space currently at other locations to be converted into bedrooms for six additional beds.

Total costs of this construction-remodeling project is expected to be \$330,800, and will be financed by the proposed HELP II loan of \$304,500 and Mid Valley’s internal funds of \$26,300. Mid Valley is currently in the process of having the property appraised.

| | | |
|-------------------------------|--------------|-------------------------|
| Financing Costs | | <u>5,500</u> |
| 1. Authority Closing Fee..... | \$4,000 | |
| 2. Title/Escrow/Other..... | <u>1,500</u> | |
| Total | | <u>\$336,300</u> |

Financing Structure:

The HELP II loan for Mid Valley will be structured as follows:

- 15-year loan term.
- 180 equal monthly payments of approximately \$2,100 (yearly payments of \$25,200).
- Total interest payments of approximately \$74,000.
- Maximum loan to value ratio of 95%. Expected 52% loan to “as improved value” ratio (based on estimated improved value of \$580,800).
- First deed of trust on the property located at 3424 Cogswell Road, El Monte, CA.
- First lien on corporate gross revenue pledge.
- Maximum price construction contract.

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II. FINANCIAL STATEMENTS AND ANALYSIS:

Mid Valley Recovery Services, Inc.
Statement of Activities
(Unrestricted)

| | For eight months ended February 28 | For the year ended June 30 | | |
|--|---|-----------------------------------|-------------------|-------------------|
| | 2003 | 2002 | 2001 | 2000 |
| | (Unaudited) | | | |
| <u>REVENUE</u> | | | | |
| Grants | \$ 988,563 | \$ 1,494,628 | \$ 1,358,535 | \$ 1,358,535 |
| Public support | 126,389 | 183,818 | 117,853 | 136,223 |
| General fees | 155,355 | 287,526 | 382,049 | 387,184 |
| Total revenues | <u>1,270,307</u> | <u>1,965,972</u> | <u>1,858,437</u> | <u>1,881,942</u> |
| <u>EXPENSES</u> | | | | |
| Salaries and benefits | 652,770 | 1,035,097 | 942,283 | 826,063 |
| Program supplies and services | 102,494 | 226,518 | 200,641 | 319,795 |
| Property lease and taxes | 70,482 | 114,405 | 113,523 | 177,168 |
| Insurance | 134,598 | 156,196 | 137,133 | 101,272 |
| Maintenance and repairs | 38,799 | 58,834 | 47,189 | 105,124 |
| Utilities | 60,105 | 85,192 | 94,904 | 77,502 |
| Professionals and consultants | 35,654 | 68,596 | 91,348 | 81,224 |
| Other | 16,711 | 16,933 | 17,219 | 19,595 |
| Depreciation | 38,081 | 56,405 | 62,155 | 52,177 |
| Interest | 64,887 | 107,371 | 112,926 | 89,607 |
| Total expenses | <u>1,214,581</u> | <u>1,925,547</u> | <u>1,819,321</u> | <u>1,849,527</u> |
| Change in unrestricted net assets | 55,726 | 40,425 | 39,116 | 32,415 |
| Unrestricted net assets at beginning of year | 695,348 | 661,565 | 613,254 | 580,839 |
| Prior year adjustments | (7,987) | (6,642) | 9,195 | - |
| Unrestricted net assets end of year | <u>\$ 743,087</u> | <u>\$ 695,348</u> | <u>\$ 661,565</u> | <u>\$ 613,254</u> |

Mid Valley Recovery Services, Inc.
Statement of Financial Position

| | <u>As of February 28</u> | <u>As of June 30</u> | | |
|----------------------------------|--------------------------|----------------------|---------------------|---------------------|
| | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| <u>Assets</u> | (Unaudited) | | | |
| Cash | \$ 296,818 | \$ 262,903 | \$ 131,818 | \$ 145,357 |
| Accounts receivable | 161,505 | 234,927 | 219,404 | 306,969 |
| Other assets | 167,336 | 221,893 | 126,647 | 117,645 |
| Property and equipment, net | 1,798,495 | 1,753,507 | 1,767,942 | 1,760,583 |
| Total Assets | <u>\$ 2,424,154</u> | <u>\$ 2,473,230</u> | <u>\$ 2,245,811</u> | <u>\$ 2,330,554</u> |
| <u>Liabilities</u> | | | | |
| Accounts payable-accrual | \$ 72,259 | \$ 146,247 | \$ 60,594 | \$ 164,593 |
| Payroll liabilities | 9,717 | 11,948 | 9,470 | 8,008 |
| Long-term debt | 1,484,615 | 1,505,211 | 1,399,706 | 1,430,223 |
| Total Liabilities | <u>1,566,591</u> | <u>1,663,406</u> | <u>1,469,770</u> | <u>1,602,824</u> |
| <u>Net Assets</u> | | | | |
| Unrestricted net assets | 743,087 | 695,348 | 661,565 | 613,254 |
| Restricted net assets | 114,476 | 114,476 | 114,476 | 114,476 |
| Total Net Assets | <u>857,563</u> | <u>809,824</u> | <u>776,041</u> | <u>727,730</u> |
| Total Liabilities & Net Assets | <u>\$ 2,424,154</u> | <u>\$ 2,473,230</u> | <u>\$ 2,245,811</u> | <u>\$ 2,330,554</u> |
| Financial Ratios: | Proforma (a) | | | |
| | 6/30/02 | | | |
| Debt Service Coverage (x) | <u>1.30</u> | 1.55 | 1.50 | 1.45 |
| Debt/Unrestricted Net Assets (x) | <u>2.60</u> | 2.16 | 2.12 | 2.33 |
| Margin (%) | | 2.06 | 2.10 | 1.72 |
| Current Ratio (x) | | 3.15 | 5.01 | 2.62 |

(a) Recalculates June 2002 audited results to include the impact of this proposed financing.

Financial Discussion:

Mid Valley is a financially stable organization, as shown by the positive growth in revenue and continues to operate with positive results.

Mid Valley provides recovery program services for chemically dependent men, women, families and their children, and serve the low income, medically underserved population in the Los Angeles County area. Its main sources of revenue are government grant contracts with the County of Los Angeles Department of Health Services, Office of Alcohol and Drug Programs. This funding is a pass-through for the U.S. Department of Health and Human Services. The public support revenue are general relief funds, paid directly to the program under the Federal Emergency Management Act, administered by the United Way. Other public support revenue is derived from food stamps, social security income, state disability insurance, donations and contributions. The general fees are mostly received from self-pay residents.

Total revenues have increased approximately 4% over our review period from fiscal 2000 to 2002, primarily due to the increase in government contracts for Proposition 36 funding in fiscal 2002. The public support revenue in fiscal 2001 had a negative impact on revenues due to the decrease in Burn grant money. However, the increase in food stamp funding boosted the revenue for public support for fiscal 2002. Management expects that the revenues for fiscal 2003 and 2004 will increase due to the proposed projects which will add new residential beds and generate income from the new assembly hall.

Operating expenses increased approximately 4% over our review period. The increases were significant from fiscal 2000 to fiscal 2002 as salaries and related expenses increased by 25% due to the increase in new employees to work on new contracts. The jump in salaries and related expenses also resulted in the increase of insurance expenses by 54%, such as workers compensation and medical insurance. However, these increases were compensated by the decrease in other expenses, ranging from 40% to 80%. Management implemented cost cutting measures for program supplies and services, organizing preventive maintenance programs, and reducing leasing of properties. These measures had a positive impact on total operating expenses.

Mid Valley continues to post positive operating results through the current fiscal period. Positive revenue growth has provided strong operating margins ranging from 1% to 2% during the past three fiscal years. Management anticipates maintaining an operating margin of approximately 2% for fiscal 2003. Mid Valley has had positive growth in unrestricted net assets and anticipates a \$60,000 increase in unrestricted net assets for fiscal 2003.

The balance sheet shows strong liquidity and growth in net assets.

Mid Valley improved its billing and collection procedures in fiscal 2001 and 2002, resulting in a substantial reduction of accounts receivable. As a result of these procedures, Mid Valley improved its cash position and reduced its current liabilities at the end of February 2003. Mid Valley has maintained positive cash flows with strong liquidity as demonstrated by a current ratio ranging from 2.62x to 3.15x for the review period. With continued positive operating results, net assets have grown 13% from fiscal 2000 to fiscal 2002. Mid Valley is

slightly leveraged, with a proforma debt-to-unrestricted net assets ratio of 2.60 x. With this proposed loan, management anticipates meeting all of its debt obligations, as evidenced by a proforma debt service coverage ratio of 1.30x.

III. UTILIZATION STATISTICS:

Transitional Living Residential Facilities

| | Eight Months Ended February 2003 | Fiscal Year Ended June 30 | | |
|-----------------------------------|--|---------------------------|---------------|--------------|
| | | 2002 | 2001 | 2000 |
| Residential Bed-Days | | | | |
| Facilities: | | | | |
| Casa De Los Amigos | 1,601 | 2,172 | 2,044 | 1,916 |
| Casa De Familia | 1,370 | 1,862 | 1,752 | 1,643 |
| Stiles House | 1,370 | 1,862 | 1,752 | 1,643 |
| Casa De Miligros | 2,284 | 3,103 | 2,920 | 2,738 |
| Dolly's House | 1,370 | 1,862 | 1,752 | 1,643 |
| Total Bed Residential Days | 7,995 | 10,861 | 10,220 | 9,583 |

Adult Treatment Recovery Residential Facilities

| | Eight Months Ended February 2003 | Fiscal Year Ended June 30 | | |
|-----------------------------------|--|---------------------------|---------------|---------------|
| | | 2002 | 2001 | 2000 |
| Residential Bed-Days | | | | |
| Programs: | | | | |
| General Relief II-500 | 1,917 | 2,920 | 7,023 | 7,053 |
| RS Prop. 36-501 | 881 | 984 | - | - |
| General Relief I-507 | 1,772 | 2,761 | 6,054 | 6,019 |
| Self Pay | 2,102 | 2,926 | 120 | 275 |
| Total Bed Residential Days | 6,672 | 9,591 | 13,197 | 13,347 |

Family Treatment Recovery Residential Facilities

| | Eight Months Ended February | Fiscal Year Ended June 30 | | |
|-----------------------------------|--------------------------------------|---------------------------|--------------|--------------|
| | 2003 | 2002 | 2001 | 2000 |
| | Residential Bed-Days | | | |
| Programs: | | | | |
| RCRP-900 | 1,742 | 2,465 | 4,114 | 3,982 |
| RS Prop. 36-901 | 717 | 546 | - | - |
| RS Calworks-911 | 587 | 939 | 570 | 482 |
| RS NCP-912 | 25 | 424 | 227 | 450 |
| Self Pay | 31 | 634 | 6 | - |
| Total Bed Residential Days | 3,102 | 5,008 | 4,917 | 4,914 |

Outpatient Recovery Treatment Facilities

The utilization statistics for most of the non-residential programs for outpatient and outreach centers are quantified using different measures such as staff hours, client visits and program costs that cannot be compared with residential days. However, the trend for our review period does not indicate a significant change.

IV. ORGANIZATION:

Background:

Mid Valley was founded in 1969 and incorporated as a non-profit corporation to provide comprehensive treatment for alcohol and drug dependent individuals who are homeless or low income and others for whom such services are generally limited or unavailable. In the past, Mid Valley had operated under different names. Today, it provides a recovery program through its three treatment residential facilities, five supportive transitional living facilities and various outpatient-outreach program centers for chemically dependent men, women, families and children in Los Angeles County. The program includes emotional support, rehabilitation, food, referrals and shelter.

Mid Valley charges fees based on the ability to pay and no one is denied service due to lack of funds. Mid Valley receives federal and county grants for programs administered through the County of Los Angeles Department of Health-Office of Alcohol and Drug Programs. Other funding comes from public support through contributions and grants.

Licenses:

Mid Valley is licensed as an adult residential alcoholism or drug abuse recovery or treatment facility by the State Department of Alcohol and Drug Programs (DADP). Mid Valley’s individual recovery-treatment center or program is also certified by DADP to provide residential and outpatient alcohol and/ or other drug services, individual, group and educational sessions for recovery or treatment planning.

Competition:

Mid Valley’s main campus on Cogswell Road in El Monte is strategically placed to address the growing drug and alcohol abuse problem in the San Gabriel Valley. In El Monte, there is a desperate need for drug and alcohol abuse recovery residential facilities.

Mid Valley’s market share of residential beds is 40% representing 103 beds for both men and women. The other 62% market share with 154 beds represents various competition, which does not pose a real threat to the project. Mid Valley is the only facility in the area that is also licensed for women and children recovery treatment. With the proposed project and the proposed duplex development at 3416 Cogswell Road, Mid Valley expects to add 16 more residential beds for fiscal 2004 a market share of approximately 43%, with 119 beds.

| <u>Market</u> | <u>Beds</u> | <u>Market Share (%)</u> | <u>Distance Away</u> |
|----------------------------------|--------------------|--------------------------------|-----------------------------|
| Mid Valley Recovery Services | 103 | 40% | N/A |
| Stepping Stones (women only) | 26 | 10% | 12 Miles |
| Grand View Foundation (men only) | 90 | 35% | 14 Miles |
| Casa de las Amigos (women only) | 38 | 15% | 14 Miles |
| Total | 257 | 100% | N/A |

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V. OUTSTANDING DEBT:

| <u>Description</u> | <u>Original Amount</u> | <u>Amount Outstanding As of 6/30/02</u> | <u>Estimated Amount Outstanding After Proposed Financing</u> |
|--|------------------------|---|--|
| Existing: | | | |
| Certificates of Participation, County of Los Angeles, 1/1/1991 | \$1,175,000 | \$982,790 | \$982,790 |
| Note Payable, Washington Mutual ,5/26/2000 | 200,000 | 197,244 | 197,244 |
| Note Payable, United Commercial, 5/17/2000 | 210,500 | 195,177 | 195,177 |
| Note Payable, City of El Monte, 3/21/2002 | 130,000 | 130,000 | 130,000 |
| Proposed: | | | |
| CHFFA HELP II Loan, 2003 | 304,500 | - | 304,500 |
| TOTAL DEBT | | <u>\$1,505,211</u> | <u>\$1,809,711</u> |

VI. SECTION 15438.5 OF THE ACT:

With the proposed HELP II Loan, Mid Valley will save approximately \$7,600 annually in loan payments in comparison to a commercial rate loan. Mid Valley will use these savings to offset its costs of uncompensated care for clients unable to pay out of pocket. The savings will also allow Mid Valley to maintain or expand its existing level of services without raising rates.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan to Mid Valley Recovery Services, Inc. in an amount not to exceed \$304,500 for a term of 15 years, subject to a final appraised value on the subject property satisfactory to the Authority and the standard HELP II loan provisions.

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